

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**OFFICE OF AUDIT SERVICES  
REGION IX**

**HEALTH CARE MANAGEMENT'S  
SKILLED NURSING FACILITY BILLINGS  
AND COSTS FOR ANCILLARY MEDICAL  
SUPPLIES FOR THE PERIOD JANUARY 1,  
1993 THROUGH DECEMBER 31, 1994**



**JUNE GIBBS BROWN  
Inspector General**

JANUARY 1997  
A-09-96-00079



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector\_ General

Region IX  
Office of Audit Services  
50 United Nations Plaza  
San Francisco, CA 94102

January 23, 1997

A-09-96-00079

Mr. Scott J. Manning  
First Vice President  
Medicare Audit and Reimbursement  
Mutual of Omaha  
P.O. Box 1604  
Omaha, Nebraska 68101

Dear Mr. Manning:

This final report provides you with the results of **an** Office of Inspector General (OIG) audit of Health Care Management's (HCM) billings to Medicare for ancillary medical supplies and its associated costs as claimed on the Medicare cost reports of its three skilled nursing facilities (SNFs) for calendar years ended (CYE) December 31, 1993 and December 31, 1994. During this 2-year period, HCM billed Medicare about \$3 million for ancillary medical supplies and claimed costs of about \$2.0 million for these items and services.

The objective of our review was to determine if unallowable charges had been billed and unallowable costs had been claimed.

According to Medicare reimbursement rules, items and services that can be considered ancillary are limited only to those items and services that are directly identifiable to an individual patient, furnished at the direction of a physician because of special medical needs, **and** are either not reusable, represent a cost for each preparation, or are complex medical equipment.

We found that HCM's billings to Medicare for ancillary medical supplies were generally in compliance with Medicare's rules, but that significant costs were misclassified as ancillary on the Medicare cost reports. The costs should have been classified as routine.

The costs that were misclassified did not **meet** Medicare's requirements as ancillary costs. Classifying costs as ancillary rather than as routine generally resulted in higher Medicare reimbursement. We did not quantify the financial impact of the misclassified costs as our review was limited to determining what types of items and services that were claimed as ancillary were unallowable as such.

The three SNFs were sold effective October **31, 1995**, but HCM retains financial responsibility for any Medicare overpayments incurred before that date.

In a reply to our draft report (see Appendix A), HCM disagreed with the treatment of some of the medical supplies items as routine. For the most part, however, it agreed that the costs we identified should be classified as routine.

In the fiscal intermediary's response to our draft report (see Appendix B), Mutual of Omaha concurred with our findings and recommendations. It said that it would reopen the cost reports and work with HCM to develop the correct amounts that could be claimed as ancillary costs.

Regarding HCM's disagreement with the classification of some of the items, we continue to believe that the items we identified in our review as routine should be classified as such.

Accordingly, we recommend that Mutual of Omaha ensure that HCM submits revised cost reports for its three SNFs for CYE December **31, 1993** and December 31, 1994 and that the revised cost reports reclassify all costs for routine items and services that were previously claimed as ancillary medical supplies.

## INTRODUCTION

### Background

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#### Our Audit Was Part of Operation Restore Trust

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As part of the Department of Health and Human Services' efforts to combat fraud, waste, and abuse, the OIG, in partnership with the Health Care Financing Administration (HCFA) and the Administration on Aging, undertook an initiative called Operation Restore Trust. This project was designed to specifically target Medicare and Medicaid abuse and misuse in nursing home care, home health care, and durable medical equipment, three of the fastest growing areas in Medicare.

The OIG's audit of HCM's three SNFs is one of several conducted in a national review of ancillary medical supplies. States included in this review are California, Florida, Illinois, New York, and Texas.

The HCM's SNFs were selected by the OIG for this review because one of them had significantly higher medical supply costs than comparable SNFs.

The HCM is a limited partnership that served as the home office of three SNFs--Los Gatos Convalescent Hospital, Casa Serena de Salinas Health Care, and Casa Serena de San Jose. It provided

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**HCM Served as the Home  
Office for Three SNFs**

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supervision, management, accounting, payroll, billing, purchasing, personnel selection, and financial responsibility for the three facilities. The assets of the three SNFs were sold effective October 31,

1995, but HCM retained the responsibility for any Medicare overpayments incurred before that date.

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**Medicare  
Reimbursement**

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Medicare generally reimburses SNFs on a reasonable cost basis as determined under principles established in the law and regulations. In order to determine their reasonable costs, providers are required to submit cost reports annually, with the

reporting period based on the provider's fiscal accounting year. The SNFs are paid on an interim basis (based upon their billings to Medicare), and the cost report is used to arrive at a final settlement amount. Costs are classified on the cost report as either routine or ancillary.

Routine services are generally those services included by the provider in a daily service--sometimes referred to as the "room and board" charge. Included in routine services are the regular room, dietary and nursing services, minor medical and surgical supplies, and the use of certain equipment and facilities for which a separate charge is not customarily made.

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**Medicare's Rules Specify  
What Costs Are Ancillary**

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According to Medicare rules, "...the following types of items and services...are always considered routine in an SNF for purposes of Medicare cost apportionment, even if customarily

considered ancillary by an SNF:

"0 All general nursing services, including administration of oxygen and related medications...handfeeding, incontinency care, tray service, enemas, etc.

"0 Items which are furnished routinely and relatively uniformly to all patients, e.g., patient gowns, paper tissues, water pitchers, basins, bed pans, deodorants, mouthwashes.

"0 Items stocked at nursing stations or on the floor in gross supply and distributed or utilized

individually in small quantities, e.g., alcohol, applicators, cotton balls, bandaids, antacid, aspirin, (and other nonlegend drugs ordinarily kept on hand), suppositories, tongue depressors.

"0 Items which are utilized by individual patients but which are reusable and expected to be available in an institution providing an [sic] SNF level of care, e.g., ice bags, bed rails, canes, crutches, walkers, wheelchairs, traction equipment, other durable medical equipment (DME) which does not meet the criteria for ancillary services in SNFs under §2203.2, and the requirements for recognition of ancillary charges under §2203....

"0 Special dietary supplements used for tube feeding or oral feeding, such as elemental high nitrogen diet, even if written as a prescription item by a physician...." (Provider-Reimbursement Manual, section 2203.1)

Ancillary services are those services directly identifiable to individual patients, such as laboratory, radiology, drugs, medical supplies, and therapies. Section 2203.2 of the Provider Reimbursement Manual, effective during our audit period,<sup>1</sup> specified that certain items and services could be considered ancillary if they met each of the following three requirements:

"0 direct identifiable services to individual patients, and

"0 furnished at the direction of a physician because of specific medical needs, and

"0 one of the following:

- Not reusable - e.g., artificial limbs and organs, braces, intravenous fluids or solutions, oxygen (including medications), disposable catheters;
- Represent a cost for each preparation, e.g., catheters and related equipment, colostomy bags, drainage equipment, trays and tubing; or
- Complex medical equipment - e.g., ventilators, intermittent positive pressure

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<sup>1</sup> This section was revised effective March 1995.

breathing (IPPB) machines, nebulizers, suction pumps, continuous positive airway pressure (CPAP) devices, and bead beds such as air fluidized beds."

Medicare pays its portion of a provider's reasonable costs based upon an apportionment between program beneficiaries and other patients so that Medicare's share of the costs is based on services received by Medicare beneficiaries. For routine costs, Medicare's share is determined on the basis of a ratio of Medicare patient days to total patient days. For ancillary costs, Medicare's share is determined on the basis of the ratio of total covered beneficiary charges for ancillary services to total patient charges for such services.

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**Misclassification of  
Costs May Result in  
Overpayments**

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Classifying costs as ancillary rather than as routine can result in higher Medicare reimbursement to SNFs because of two factors. First, SNFs generally have higher Medicare utilization for ancillary services than for routine services. That is, Medicare eligible patients generally receive more ancillary services than other patients but comprise a smaller portion of the total number of patients. Thus, Medicare's share of ancillary costs is usually greater than its share of routine costs. Second, Federal law (specifically, section 1888 of the Social Security Act) limits Medicare reimbursement for SNFs' routine costs to 112 percent of the mean operating costs of other similar SNFs. Thus, Medicare does not share in routine costs exceeding the Federal limit, unless the provider applies for and receives an exception from HCFA.

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**HCFA Provides  
Program Oversight**

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The HCFA administers the Medicare program and designates certain fiscal intermediaries to perform various functions, such as processing Medicare claims, performing audits, and providing consultative services to assist SNFs as providers. Mutual of Omaha served as the fiscal intermediary for HCM's SNFs during the 2-year period of our audit.

### **Scope**

Our objective was to determine if unallowable charges had been billed to Medicare and unallowable costs had been claimed on the Medicare cost reports for ancillary medical supplies for the 2-year period ended December **31, 1994**. According to the cost reports submitted by HCM for the three SNFs, HCM billed Medicare \$1,634,086 for ancillary medical supplies for CYE December **31, 1993** and \$1,396,926 for CYE December 31, 1994 (a total of \$3,031,012). It claimed \$1,035,862 as costs for these supplies

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for CYE December **31, 1993** and \$1,024,269 for CYE December **31, 1994** (a total of \$2,060,131).

To accomplish this objective, we reviewed a judgmental sample of 256 items billed to Medicare and discussed billing procedures with HCM billing staff. In addition, we obtained an understanding of HCM's accounting system and reconciled the amounts claimed on the Medicare cost reports for ancillary medical supplies to the accounting records.

We also examined a judgmental sample of 354 ancillary medical supply line items to determine if costs were allowable as claimed. The 354 line items included: (1) 234 items in accounts 810054 (Medical and Surgical) and 817069 (Personal and Incidental), (2) 27 items in account 817063 (Nutritional Feeding), **(3) 4** items in account 897151 (Oxygen), and (4) 89 items in account 898163 (Tube Feeding).

For our judgmental sample of 354 line items, we selected invoices of those vendors that appeared to us to account for the most costs in each account. Because our sample was nonrandom, we cannot project the results of our sample to the total costs claimed.

We discussed many of the specific items purchased by HCM with Mutual of Omaha's auditors and medical review staff to determine their allowability as ancillary medical supplies.

We also looked at salary costs claimed as ancillary medical supplies on the cost reports.

Our review was made in accordance with generally accepted government auditing standards. The fieldwork was performed at HCM's corporate office in San Jose, California during June 1996. Subsequent to our fieldwork, Mutual of Omaha audited the 1994 cost reports for the three SNFs.

#### FINDINGS AND RECOMMENDATION

Our review disclosed that the **256** items that HCM billed to Medicare were in compliance with Medicare's rules. However, we found that costs for certain items and services that were classified as ancillary should have been classified as routine.

The items and services that should have been classified as routine included:

- Miscellaneous routine items, such as tape, insulin syringes, latex gloves, swabs, and general purpose ointments,

- Nutritional food supplements,
- Enteral feeding products, and
- Salary costs for supply room clerks.

Under Medicare's rules (see pages 3 and 4 of this report), costs for items and services furnished routinely to all patients should always be considered as routine costs. In order to be classified as an ancillary cost, the item or service must be directly identifiable to an individual patient, furnished at the direction of a physician because of special medical needs, and either not reusable, represent a cost for each preparation, or complex medical equipment.

The costs we identified were for items or services that did not meet the specific requirements for treatment as ancillary medical supplies.

As a result, Medicare may have significantly overpaid the three SNFs. Because we selected the invoices in a nonrandom manner, the results we noted may not necessarily be representative of the total costs included as ancillary on the cost reports.

According to HCM staff, the individual who prepared the Medicare cost reports is now deceased. Therefore, we were unable to determine why the misclassification occurred.

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**Miscellaneous Routine  
Items Were Claimed as  
Ancillary**

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We identified costs for numerous routine items recorded in accounts 810054 (Medical and Surgical) and 817069 (Personal and Incidental). Our judgmental sample of 234 line items in these

two accounts, costing \$19,099, revealed that 22 percent of the costs we examined were for routine medical supplies. For account 810054, we found that 19 percent of the costs were for routine items. For account 817069, we found that 64 percent were routine. Because our sample was judgmental, we cannot conclude that these percentages were representative of all such costs in these accounts.

The three SNFs' cost reports included \$1,643,624 that were for costs in account 810054 and \$7,455 that were in account 817069. The \$7,455 was included as ancillary only for the Salinas facility in 1993. For all other facilities, both in 1993 and 1994, all costs in account 817069 were treated as routine by HCM.

The routine items in these two accounts were for supplies, such as tape, insulin syringes, latex gloves, swabs, and general purpose ointments. Because these products were "stocked at nursing stations or on the floor in gross supply and distributed



or utilized individually in small quantities" (see Medicare's definition of routine on pages 3 and 4 of this report), they do not qualify as ancillary items.

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**Nutritional Food Supplements  
Were Included as Ancillary**

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We found that costs for nutritional food supplements that were classified on the cost reports as ancillary should have been classified as routine. The HCM included

\$71,464 that was recorded in account 817063 (Nutritional Feeding) in its ancillary medical supplies for the 2-year period we audited.

A judgmental sample of 27 line items recorded in account 817063, totaling \$1,864, revealed that 100 percent of the costs we examined were for routine nutritional items, such as milkshakes, "Glucerna," "Ensure," and "Thicken Up."

During its audit of the 1993 cost reports, Mutual of Omaha reclassified \$18,170 (the entire amount in this account for the Los Gatos facility) to routine because it determined that the supply items in this account were not ancillary medical supplies. It did not, however, make any adjustments in this account at the other two facilities. Therefore, a major portion of the remaining \$53,294 (\$71,464 less \$18,170) may be for routine items also.

Special dietary supplements are specifically listed in section 2203.1 of the Provider Reimbursement Manual (see page 3 of this report) as items that are always considered routine in a SNF, even if prescribed by a physician.

We found that four line items we examined in account 897151 (Oxygen), totaling \$658, were properly classified as ancillary costs.

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**Enteral Feeding Products  
Were Also Included**

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Our review of 89 line items totaling \$135,808 that were recorded in account 898163 (Tube Feeding) revealed that 56 percent of the costs we examined were for costs for enteral feeding.

Enteral food is liquid nourishment given either orally or by use of a tube through the nose or directly into the stomach to patients who cannot ingest an appropriate amount of calories to maintain an acceptable nutritional status. Similar to nutritional food supplements, enteral feeding products are also considered routine.

The Medicare cost reports for the three SNFs included \$471,756 of costs from account 898163 for the 2-year period.

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**Salary Costs Were  
Treated as Ancillary**

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We found that salary costs of \$97,932 had been included as ancillary costs in HCM's submitted cost reports but should have been claimed as routine costs. Mutual of Omaha reclassified the salaries in 1993 (\$47,634) to routine during its audit of that year. However, HCM again included the salaries (\$50,296) as ancillary in its submitted cost reports for 1994. Subsequent to our fieldwork, Mutual of Omaha audited the 1994 cost report and reclassified the salaries in that year to routine.

According to HCM staff, the salaries were for supply room clerks at the SNFs who ordered supplies, checked them in upon receipt, and dispersed them to the nurses. However, these salary costs should be considered routine because they do not meet Medicare's definition of an ancillary service.

**Recommendation**

We recommend that Mutual of Omaha ensure that HCM submits revised cost reports for its three SNFs for CYE December 31, 1993 and December 31, 1994 and that the revised cost reports reclassify all costs for routine items and services that were previously claimed as ancillary medical supplies.

**HCM's Comments**

The HCM disagreed with the classification of several items as routine in account 810054 (Medical and Surgical). It maintained that items, such as specialized ointment, surgical face masks, sterile gloves, syringes, dressings, tape used in surgical dressings, and foam eggcrate pads should be classified as ancillary because they were directly identifiable to individual patients, furnished at the direction of a physician because of specific medical needs, and not reusable.

It also stated that while it agreed that one item, food thickener, was routine, it noted that very few bills from that vendor were coded to account 810054. It believed that, overall, "only a negligible amount of the total invoices billed to account number 810054" were for routine medical supplies.

Regarding the remaining accounts, HCM agreed with the treatment of items in accounts 817063 (Nutritional Feeding) and 898163 (Tube Feeding). It also agreed that the salary costs should be classified as routine. It noted, however, that some of the costs for nutritional food supplements and all of the salaries had

already been reclassified by Mutual of Omaha from ancillary to routine during its audits of the cost reports for 1993 and 1994.

#### **OIG's Comments**

Regarding the classification of items in account 810054 (Medical and Surgical) as routine, the determination that the items mentioned by HCM (ointments, face masks, etc.) were routine were made by the medical review staff at the fiscal intermediary.

The items do not qualify as ancillary because they represent items "stocked at nursing stations or on the floor in gross supply and distributed or utilized individually in small quantities" (see section 2203.1 of the Provider Reimbursement Manual quoted on pages 3 and 4 of this report). These items cannot be considered ancillary because the criteria defining ancillary services (section 2203.2 of the Provider Reimbursement Manual) says, in effect, that ancillary applies only to items "other than the types classified as routine services in § 2203.1." The HCM cannot now claim that the costs for items, such as face masks, syringes, sterile gloves, etc. are ancillary costs when it did not consider the very same items as ancillary for charging purposes. To do so would create an inequitable apportionment of costs to Medicare.

#### **Mutual of Omaha's Comments**

Mutual of Omaha indicated that medical supplies is an area subject to program abuse. It agreed with our findings and recommendations and stated that it would work with HCM to develop revised amounts for ancillary medical supplies.

#### **Requested Response**

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination. To facilitate identification, please refer to the common identification number A-09-96-00079 in all correspondence relating to this report.

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In accordance with the principles of the Freedom of Information Act (Public Law 90-23), Office of Inspector General, Office of Audit Services reports issued to the Department's grantees and

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contractors are made available, if requested, to members of the press and general public to the extent the information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)

Sincerely yours,

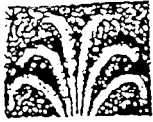
A handwritten signature in cursive script, reading "Lawrence Frelot".

Lawrence Frelot  
Regional Inspector General  
for Audit Services

**Direct Reply to HHS Action Official:**

Elizabeth Abbott  
Regional Administrator  
Health Care Financing Administration  
75 Hawthorne Street  
San Francisco, California 94105

## **APPENDICES**



WESTWIND  
ENTERPRISES, LTD.

1515 The Alameda . Suite 200. San Jose. CA 95126-2321

APPENDIX A

October 11, 1996

Mr. Lawrence Frelot  
Department of Health  
and Human Services  
Office of Inspector General  
Region IX  
Office of Audit Services  
50 United Nations Plaza  
San Francisco, CA 94102

Re: CIN:A-09-96-00079

Dear Mr. Frelot,

This letter is in response to the Draft Audit Report dated August 30, 1996 regarding Health Care Management's (HCM) billings to Medicare for ancillary and medic-al supplies and its associated costs as claimed on the Medicare cost reports of three skilled nursing facilities (SNFs), Los Gatos Healthcare Center (Los Gatos), **San Jose** Healthcare Center (San Jose) and Casa Serena Healthcare Center (Salinas) for fiscal years ended 12/31/93 and 12/31/94.

Office of Audit Services note -- Comments have been deleted at this point because they pertain to material not included in this report.

Office of Audit Services note -- Comments have been deleted at this point because they pertain to material not included in this report.

In a review of the invoices and items that were found unallowable for account 8 10054 (1) there are several issues to be raised. First, there were two invoices from Sysco for food thickener, invoice amounts \$71.68 and disallowed, \$71.68. We agree that the food thickener is routine. However, the accounting department has informed me that there were very few bills from Sysco that were coded to account number 810054.

There are five invoices from Redline in the total amount of \$442.95, all of which were found to be unallowable. Again, there were very few invoices from Redline that were coded to 810054 during these years. The total of invoices from Redline coded to 810054 for 1993 and 1994 for Los Gatos was only \$702.15. In addition, with respect to the Redline invoices, it is our position that with the exception of the \$98.93 charge for Therm Pro Covers, invoice C0533886, the rest of the costs were ancillary rather than routine. The \$35.28 charge was for specialized ointment that was ordered for the patient. The \$175.44 invoice was for surgical face masks which were required to prevent the spreading of infectious disease in connection with those patients in isolation, according to the hospital administrator. The \$49.99 charge was for syringes. The final invoice, \$82.31 was for dressings. All of the above items were directly identifiable to an individual patient, furnished at the direction of a physician because of specific medical needs and were not reusable.

Two of the remaining invoices are from Advanced Infusion and the balance of the invoices where items were found to be disallowable are from Apple. We were unable to find all of the Apple invoices listed on the spreadsheet. The entire files for the vendor were given to the auditors, but when the files are examined now, a number of these invoices are no longer in the file. The invoices that we were able to find and the items that were disallowed are as follows:

(1)

Office of Audit Services note -- Comments have been deleted at this point because they pertain to material not included in this report.

Invoice Number	Invoice Amount	Disallowed Amount	Comments
315106	607.61	607.61	All of the items on this invoice were coded to 810054. The items were as follows: Povidone Iod swab <b>stix</b> , Solution Sod Chlor 9% Irr, Humidifier <b>pre-filled Stirl</b> , Foam <b>eggcrate bedpad 3"</b> , Glucose blood <b>lancet</b> , Staple remover skin, A&D ointment. It is felt that all of the above items., with the exception of the A&D Ointment for \$ 10 1.10, meet <b>the</b> criteria of ancillary rather than routine supplies. Povidone swabs, like alcohol wipes, are used to wipe the syringes and needles before giving an injection. The humidifier is believe to be a <b>specialty</b> item ordered by the physician for a specific <b>patient</b> . <b>The foam eggcrate was</b> ordered for a specific patient at the doctor's request to prevent bed sores and was non-reusable.
316945	367.37	59.56	The amounts <b>disallowed</b> here were sterile <b>gloves</b> . It is felt that sterile gloves should be considered ancillary as one pair of <b>gloves</b> is used for <b>each</b> procedure and <b>is identifiable</b> to the patient, cannot be reused, and is <b>furnished</b> at the direction of the physician.
347094	219.45	62.92	<b>The</b> items disallowed here were the <b>syringe</b> insulin and the <b>eggcrate bedpad 3"</b> . The classification of the <b>eggcrates</b> as ancillary <b>has</b> been discussed above, <b>The syringe is again</b> identifiable to a patient, used for an injection at the direction of the physician and was non-reusable.
349130	1591.64	649.50	The amount disallowed here was again for sterile exam gloves.
38875AB	1898.07	39.06	The disallowed items here were alcohol wipes, <b>syringe</b> , non-sterile gloves, needle, plastic backed pad, tape 1" <b>transpore</b> , and <b>Povidine</b> iodine prep pad. The only item in the above <b>list</b> that should have been routine were the non-sterile gloves in the amount of \$7.80. The tape is used in a surgical dressing.
488508	268 1.42	65.18	The items disallowed here were alcohol wipes, <b>gloves non-sterile</b> , plastic backed pad, reheaters zap pack, needle, plastic <b>backed</b> pad, Povidine iodiie, prep pad, tape <b>transpore</b> , syringe, gloves sterile. The only items that we would consider routine would be <b>the</b> non-sterile gloves in the amount of \$7.80. We were not able to &ertain what the reheater zap pack was, but <b>felt</b> that it must have <b>been</b> a specialty item ordered at the physician's request for a specific patient.



In summary, it is our conclusion that the items that were routine represent only a negligible amount of the total invoices billed to account number 810051. These are simply the result of human error, and it is quite likely that they were offset by other errors where minor amounts were categorized to routine accounts but were really ancillary.

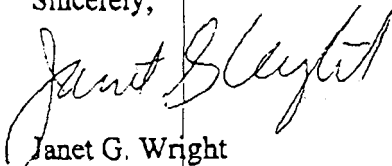
The next section of the report is entitled "Nutritional Food Supplements Were Included as Ancillary". The audit found that account number 817061 classified as ancillary on the cost report contains costs for nutritional food supplements that should have been routine. We agree with this finding. The accounting department in preparing the financial statements set up this account for routine food supplements, but the account was mistakenly classified as ancillary on the cost report. However, in the 1993 and 1994 cost reports for Los Gatos, Mutual made an adjustment to this account, taking the costs out of ancillary and reclassifying them to routine. In the cost report for San Jose for 1993, this account was not coded to as an ancillary item, but was classified as dietary. This means that the only amounts in account 817063 that were misclassified were for Salinas for 1993 and 1994 and San Jose for 1994.

The next item discussed in the report was entitled "Enteral Feeding Products Were Also Included". The audit report states that their review of items that were included in account 898163 (Tube Feeding) included costs for enteral feeding, which is a routine cost. We agree that some costs for enteral feeding were included in account 898 163 and were therefore erroneously categorized as ancillary.

The next section is entitled "Salary Costs Were Treated as Ancillary". The audit report found that the salary for supply room and clerks was classified as an ancillary cost and should have been classified as a routine cost. In a conversation with Mr. Hurst, for all three facilities, in both years, 1993 and 1994, he confirmed that Mutual had already reclassified this expense as routine.

If you have any questions, please give me a call.

Sincerely,



Janet G. Wright  
Counsel for Health Care Management

JGW:jkb



November 20, 1996

Mr. Lawrence Frelot  
Regional Inspector General  
for Audit Services  
Office of Inspector General  
50 United Nations Plaza  
San Francisco, CA 94102

Re: **Health** Care Management.  
CIN A-09-96-00079

Dear Mr. Frelot:

This is in response to your letter of August 30, 1996 concerning the **draft** audit report on your review of ancillary medical supply costs **claimed** by **Health** Care Management (**HCM**) **during their** fiscal years ending December **31, 1993** and **December 31, 1994**. We welcome the opportunity to review the draft report and provide comments on the **findings** and recommendation included in the report.

Based on our extensive experience with skilled nursing **facilities**, we have long realized that **medical** supplies is **an** area subject to program abuse. We value the efforts that your office has put forth in investigating this area., and are **willing** to take the steps **necessary** to recover **funds** that have been inappropriately obtained **from** the Medicare program. We do however have **several** comments or concerns regarding your **draft** report.

You have recommended that Mutual of **Omaha** **ensure** that HCM submits revised **cost** reports for FYE 1993 and 1994, which reclassify costs for routine items and **services** which were **previously claimed** as ancillary. Because these cost reports have been finalized, we don't believe it would be appropriate to require **the** provider to **file** amended reports. Rather, it appears that **Mutual** of Omaha **will** need to work with the provider to develop the correct amounts to be adjusted during a reopening of these reports- This **is** particularly **true since, as** you indicated in your report, your **sample** was selected in a nonrandom manner and may not be **representative** of the total **ancillary** costs included in the cost report. Consequently we will be issuing a Notice of Reopening for **all** of the **applicable** cost reports.

During our review of the draft report, we also noted the **following** items **pertaining** to **specific** expense categories:


Miscellaneous Routine Items Account 817069 - Personal and Incidental, was included as an ancillary in only one of the cost reports (**Casa Serena** de San Jose for 12/31/93), for a relatively minor amount (\$7455). In all other **cases this** account was **included** in A&G, and should **therefore** be excluded when **determining** any adjustments.

Nutritional Food Supplements Account 8 17063 - Nutritional Feeding, was reclassified to routine during our **audits** of Los **Gatos** for both 1993 and 1994. In **addition**, the provider **included** this account in Dietary in **Casa Serena** de San Jose for 12/31/94. Therefore **this** account will not require **an** adjustment to these cost reports.

Salary Costs In all of **the** cost reports, the salary costs for supply room **clerks** were reclassified to the routine cost center during our final **settlement**, and **therefore** requires no **further** adjustment.

**Again**, we thank you for the opportunity to comment on your draft report. If you **have** any questions or **comments** in regard to this matter, please contact Dean **Steiner** at (402) 351-5380.

Sincerely,

 *for Scott Manning*

**First** Vice President

Audit and Reimbursement